



Incentives for Hybrids & Alternative Fueled Vehicles

Individuals and businesses can receive federal and state income tax credits for the purchase of hybrid and alternative fueled vehicles (IRS Form 8910 and Act No. 312, 2006). There is also a state income tax credit for plug-in hybrid vehicles (Act No. 83, 2007). Beginning July 1, 2008, there will be a sales tax rebate of up to \$300 for in-state purchase or lease of Flex-Fuel (ethanol-85), hydrogen fueled, lean-burn, electric-hybrid, plug-in hybrid, electric, and high fuel economy vehicles. Also a sales tax rebate of up to \$500 is provided for the purchase of equipment to convert a vehicle to an alternative fueled vehicle (Act No. 83, 2007).

What is covered?

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- The following vehicles qualify for a federal income tax credit: electric-hybrid, hydrogen fuel cell, and lean-burn vehicles as well as vehicles that operate on compressed natural gas, liquefied natural gas, liquefied petroleum gas, and any liquid at least 85 percent of the volume of which consists of methanol, which are purchased or leased after January 1, 2006. These vehicles are eligible for a tax credit for the tax year in which the vehicle was purchased.

STATE

- Beginning tax year 2007, there is a state income tax credit of up to 20% of the amount of the federal income tax credit which applies to federally-eligible alternative fueled and hybrid vehicles. Beginning in tax year 2008, there is also a state income tax credit for plug-in hybrid vehicles of up to \$2,000.
- Beginning July 1, 2008 there is a state sales tax rebate of up to \$300 for the in-state purchase or lease of a new or used vehicle that includes: Flex-Fuel (E-85), hydrogen fueled, plug-in hybrid, electric-hybrid, electric, lean-burn, and all vehicles which get a rated fuel economy of 30mpg or greater in the city by the US EPA.
- Beginning July 1, 2008 a sales tax rebate of up to \$500 is provided for the purchase and installation of equipment to convert a conventional vehicle to operate on alternative fuels.

Maximum credit allowed

FEDERAL

- The exact amount of the tax credit is based on the energy-saving performance of the vehicle. The amount of the tax credit is based on a calculation involving two factors: how much fuel the vehicle will save over a period of 120,000 miles, and its fuel consumption compared to a 2002 vehicle in its class. Some organizations have estimated tax credits ranging from \$400 to \$2,750, depending on the vehicle.
- The taxpayer can take the full federal tax credit for electric hybrid or lean-burn vehicles up through the quarter that the particular manufacturer sells a total of 60,000 such vehicles from the January 1, 2006, start date. After the manufacturer has reached the 60,000 vehicle target, the taxpayer will be eligible for a 50% tax credit for a vehicle bought the next two quarters, then 25% for the two quarters after that.

STATE

- The amount of the state income tax credit is 20% of the amount of the federal tax credit, except that the state tax credit is permanent and will continue for hybrids and lean-burn vehicles after the federal tax credit is phased out. As the federal tax credit for those vehicles is phased out, the state tax credit will be calculated as though the full federal tax credit were still available.
- The state income tax credit for plug-in hybrid vehicles is limited to \$2,000 in any single year. Any unused credit may be carried forward for five years.
- There is no limit on the number of fuel-efficient vehicles for which credits may be claimed by an individual or business. This provides an incentive for businesses to acquire a fleet of vehicles that use alternative fuels.

How Now?

- The federal income tax credit is on Line 55 of the IRS Tax Form 1040. This is the line for "other credits." Use IRS Form 8910, and its instructions, to calculate the amount of the tax credit.
- To file the state income tax credit for hybrids and alternative fueled vehicles, use TC-35 from the SC Department of Revenue along with the income tax return. New forms have not yet been released by the SC Department of Revenue for income tax credits for plug-in hybrid vehicles
- To file the state sales tax rebate, submit form ST-447 at the time of purchase or lease of the alternative fueled vehicle.

Disclaimer: This information is not intended to provide advice on legal interpretations of the law. This information should not be relied upon in taking or refraining from taking any action related to the topics covered. The best source of information is guidance provided by the Internal Revenue Service.